

## Message Text

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ACTION TRSE-00

INFO OCT-01 EA-11 NEA-10 ISO-00 IO-13 H-03 L-03 PRS-01

PA-03 USIA-15 CEA-02 SPC-03 AID-20 EB-11 NSC-10

RSC-01 CIEP-02 SS-15 STR-08 OMB-01 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

DRC-01 /172 W

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R 240343Z SEP 73

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 8150

INFO AMEMBASSY ISLAMABAD

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USADB

C O R R E C T E D C O P Y PARA 4 LINE 14

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS 12/31/74

TAGS: EAID, EFIN, PK

SUBJ: MULTAN FERTILIZER PROJECT PAKISTAN

SUMMARY: ADB MANAGEMENT IS CONSIDERING POSSIBLE  
PARALLEL FINANCING WITH IBRD/IDA FOR PROJECT TO  
MODERNIZE AND EXPAND MULTAN FERTILIZER COMPLEX  
IN PAKISTAN. END SUMMARY.

1. ADB DOC IN 53-73 DTD 15 AUG AND POUCHED ADDRESSEES  
20 AUG WAS CIRCULATED TO INFORM BOARD OF DIRECTORS OF  
STEPS ALREADY TAKEN BY WEST PAKISTAN INDUSTRIAL DEVELOP-  
MENT CORPORATION (WPIDC), A STATUTORY GOVT CORPORATION,  
IN SELECTING ENGINEERING CONTRACTORS FOR MULTAN FERTILIZER  
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PROJECT IN PAKISTAN.

2. PROJECT CONSISTS OF SCRAPPING EXISTING OBSOLETE AMMONIA PLANT AND CONSTRUCTING NEW AMMONIA PLANT, NITRIC ACID PLANT AND NITROPHOSPHATE PLANT, AND NECESSARY OFF-SITE AND AUXILIARY FACILITIES. BANK IS CONSIDERING POSSIBILITY OF ABOUT \$25 MILLION LOAN TO COMPLEMENT PROPOSED \$30 MILLION LOAN FROM WORLD BANK GROUP ON PARALLEL FINANCING BASIS.

3. WPIDC PROPOSED THAT ENGICRRING CONTRACTOR BE ENGAGED FOR EACH PLANT TO PROVIDE LICENSE FOR PROCESS USED, DETAILED DESIGNS, PROCUREMENT TENDER DOCUMENTS, ASSISTANCE IN TENDERING AND TENDER EVALUATION AND CONSTRUCTION SUPERVISION. WORLD BANK THEN AGREED TO ALLOW WPIDC TO TAKE CERTAIN STEPS TOWARD SELECTING ENGINEERING CONTRACTORS, WHICH LED TO SUBMISSION BY PREQUALIFIED FIRMS OF SEPARATE TECHNICAL AND PRICE PROPOSALS, LATTER FOR ENGINEERING AND PROCESS LICENSE FEES.

4. UPON RECEIPT OF ADB DOCUMENT, USADB RAISED WITH BANK MANAGEMENT INAPPROPRIATENESS OF USE OF TWO-ENVELOPE SYSTEM IN SELECTION OF CONSULTANTS. MANAGEMENT AGREED THAT PRESENT BANK POLICY PRECLUDES USE OF TWO-ENVELOPE SYSTEM IN SELECTING CONSULTANTS. HOWEVER, IT POINTED OUT THAT THIS IS DIFFERENT SITUATION. IN CERTAIN TYPES OF INDUSTRIAL PROJECTS, SUCH AS PETRO-CHEMICAL AND FERTILIZER PROJECTS, IT IS NECESSARY TO ENGAGE ENGINEERING CONTRACTORS WHOSE DUTIES INCLUDE NOT ONLY PREPARATION OF DESIGNS AND SUPERVISION OF CONSTRUCTION BUT ALSO PROVISION OF TECHNICAL PROCESS TO BE USED FOR CONSTRUCTION OF PROPOSED PLANT. FEE FOR PROVISION OF TECHNICAL PROCESS IS SIGNIFICANT PROPORTION OF TOTAL CONTRACT PRICE. HENCE, TWO-ENVELOPE SYSTEM IS FREQUENTLY USED IN ENGAGEMENT OF SUCH ENGINEERING CONTRACTORS. MANAGEMENT NOTED THAT PRACTICE HAS BEEN RECOGNIZED BY WORLD BANK.

5. ALONG WITH IBRD PRACTICE, BANK HAS THEREFORE ALLOWED TWO-ENVELOPE SYSTEM IN CASES WHERE BOTH TECHNICAL PROPOSALS AND PRICES FOR TECHNICAL PROCESSES SHOULD BE OBTAINED AND COMPARED TO SELECT MOST ADVANTAGEOUS CONTRACTORS. FOR LIMITED OFFICIAL USE

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EXAMPLE, SUCH PROCEDURES WERE APPLIED IN ENGAGEMENT OF "GENERAL CONTRACTOR" FOR PUSRI FERTILIZER PROJECT IN INDONESIA AND IN ENGAGEMENT OF ENGINEERING CONTRACTORS FOR CAPROLACTUM PROJECT IN KOREA.

6. IN VIEW OF ABOVE EXPLANATION, USADB BELIEVES PROCEDURE BEING FOLLOWED IN MULTAN FERTILIZER PROJECT NOT IN VIOLATION OF GUIDELINES ON USES OF CONSULTANTS SINCE SUCH

GUIDELINES ARE BASICALLY INAPPLICABLE IN THIS CASE,  
AND IT WOULD NOT BE INAPPROPRIATE FOR BANK TO CONSIDER  
FINANCING SERVICES OF SUCH ENGINEERING CONTRACTORS.  
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